

INTERNATIONAL UTILITIES CORPORATION (IU)

STOCK COMMENT NO. C-13


**MERRILL LYNCH,
PIERCE,
FENNER & SMITH INC**

SECURITIES RESEARCH DIVISION

INTERNATIONAL UTILITIES CORPORATION (IU)

	N. Y. S. E.
Recent Price	35 $\frac{1}{2}$
1967 Price Range	37 $\frac{1}{4}$ -23
Current Indicated Annual Dividend Rate	\$1.20*
Yield	3.1% \neq
P/E Multiple on 1966 Earnings of \$1.71 \neq	22.5 \neq
P/E Multiple on Estimated 1967 Earnings of \$2.15*	17.9 \neq

* - In Canadian funds, subject to applicable non-residents tax. \neq - In Canadian funds. \neq - Adjusted to reflect current value of Canadian funds.

In our opinion, this good-quality stock has above-average potential for growth. In recent years, the company has been reducing its dependence on utility operations by diversifying into industry, shipping, and transportation. Earnings per share have grown at an impressive annual rate of 9.6% in the last five years, and dividends have been paid in increasing amounts each year since 1944.

INTERIM EARNINGS: In the first half of 1967, net income from operations amounted to \$8.8 million, or \$1.14 a share, up 14% in comparison with the \$1.00 a share earned in the 1966 first half. Results exclude gains derived from sale of properties and investments; the gains amounted to 11¢ a share in the latest half and 15¢ a share a year earlier. Second-quarter net was equal to 42¢ a share vs. 32¢ a share.

RECENT DEVELOPMENTS: The company's program of diversification into non-utility operations is continuing in 1967. An investment is being made in Divcon Inc., a Houston-based holding company that, by means of subsidiaries, provides underwater services to the international offshore petroleum industry. International Utilities will have a 30% equity interest in Divcon at a cost of \$750,000 and will spend up to

\$3 million on equipment. As the result of a share-purchase offer made in July 1967, the company has increased its investment in Echo Bay Mines Ltd. to 77%. Echo Bay, a private company, mines silver and copper in the Northwest Territories. Earnings for the year ended February 28, 1967, have been estimated at more than \$2.5 million, compared with \$611,000 for the preceding year. Preliminary studies are under way on the possibility of an exchange of stock by International Utilities Corp. for outstanding shares of General Waterworks Corp. General Waterworks is a successful investment holding company in the United States.

THE COMPANY: International Utilities operates primarily through its subsidiaries. Major operations are the distribution of

natural gas and electricity, shipping, truck and bus transportation, and miscellaneous industrial activities. In addition, International maintains an active portfolio of investments. The following table demonstrates the proportion of net income derived from the various activities in the past two years. Excluded are gains from the disposal of properties and investments.

	1966	1965
Public Utilities . . .	50.9%	59.9%
Shipping	13.3	8.3
Trucking	3.3	7.2
Industrial	11.6	10.2
Other Investments . .	20.9	14.4

INVESTMENT PORTFOLIO: The company maintains a securities portfolio that has made a significant contribution to earnings over the years. In fiscal 1966, the portfolio accounted for much of the \$4.4 million of interest and dividend income and of the \$2.2 million net capital gains. At the end of 1966, marketable securities had a book value of \$55.1 million and a market value of \$77.6 million. Combined gains from the sale of investments and properties have averaged 25¢ a share of International Utilities over the past ten years.

	Major Holdings	Shares	Market Value December 31, 1966*
<u>Canadian</u>	Power Corp. of Canada	400,000	\$ 3,800,000
	White Pass and Yukon	152,800	1,470,000
<u>U. S.</u>	Atlantic Coast Line Co.	65,700	2,053,000
	C. Brewer and Co. Ltd.	293,000	4,395,000
	Jerrold Corp.	245,000	5,763,000
	McCord Corp.	100,000	1,900,000
	New York Central Railroad	279,000	19,111,000
	Pennsylvania Railroad	237,000	12,577,000
	Reliance Insurance	100,000	3,913,000

* - Total market value \$77.6 million.

UTILITY SUBSIDIARIES: Utility operations are conducted by two natural-gas subsidiaries, an electric company, and a combined natural gas-electricity utility.

Canadian Western Natural Gas Co. Ltd. (87.7% owned) serves the cities of Calgary and Lethbridge, the town of Banff, and 82 other communities in southern Alberta. The operating area has a population of some 441,000. Revenues expanded in 1966, but because of cost increases net income declined to \$2.4 million vs. \$2.5 million a year earlier. In 1966 the company built a new \$2.5-million pipeline from the Jumping Pound West gas field to Calgary.

Northwestern Utilities Ltd. (wholly owned) distributes natural gas in the cities of Edmonton, Red Deer, Camrose, and Wetaskiwin, and in 88 other communities in central Alberta. Population of the area is about 512,000. Net income available for the common declined in 1966, to \$3.2 million vs. \$3.5 million in fiscal 1965.

Northland Utilities Ltd. (99.6% owned) is a combined natural-gas and electricity operation. Natural-gas distribution extends to some 26 communities in northern Alberta and to three in British Columbia. The population served totals approximately 47,000. Electricity is supplied to 50 communities in

northern Alberta, the Northwest Territories, and Uranium City, Saskatchewan, with a combined population of some 38,000. The large new Rainbow Lake Oil field, discovered in 1965, is in Northland's operating area. Net income available for the common rose slightly in 1966, to \$612,900 vs. \$610,700 in fiscal 1965.

Canadian Utilities Ltd. (72% owned) serves a population of about 172,000 in an area consisting of 261 communities in central and northern Alberta, one in Saskatchewan, and 15 in the Yukon. Net income available for the common rose to \$2.2 million in 1966 vs. \$2 million the year before.

SHIPPING SUBSIDIARIES: International Utilities owns a group of subsidiaries known as the Gotaas-Larsen lines. The companies own or operate oil tankers, bulk carriers, and refrigerator ships. At the end of 1966, 30 ships were owned, operated, or on order. Net income from shipping operations rose by a substantial 74% to \$1.8 million in 1966. Interest income of \$1.1 million was paid to International Utilities or its affiliates on cash advances for shipbuilding and vessel improvements; that figure compares with only \$472,000 in 1965.

TRANSPORTATION SUBSIDIARIES

Ryder Truck Lines, Inc. (wholly owned). The trucking subsidiary was purchased by International Utilities in August 1965, and has since undergone management reorganization and a substantial plant-and-equipment modernization program. These programs adversely affected 1966 earnings, which were \$233,000 vs. \$534,000 in 1965, when no tax provision was necessary because of a tax loss carryforward. Ryder operates over regular routes in 16 states.

Canada Coachways Ltd. (wholly owned), together with its subsidiaries, operates bus routes in Alberta, British Columbia, the Yukon, and Northwest Territories. Canada Coachways acquired three small bus lines

in 1966, and at the year-end owned 130 units serving 8,000 miles of highway. IU's investment in Canada Coachways' capital stock and promissory notes was just under \$5 million at the end of 1966. Although earnings were unsatisfactory last year, effected economies are expected to be reflected in improved earnings in 1967.

INDUSTRIAL SUBSIDIARIES

International Utilities of the U. S., Inc. has two divisions, which operate under the former corporate names of Brown Brothers Contractors, Inc. and The Kaiser-Nelson Corporation. These divisions are engaged in the recovery of steel and iron scrap at steel plants, the processing of slag and crushed stone, and the sale of such products in Pennsylvania, Ohio, and New Jersey. A subsidiary, The Kaiser-Nelson Steel and Salvage Corporation, conducts demolition and salvage operations throughout the United States. In 1966 a Canadian affiliate, Kaiser-Nelson Demolition Ltd., was formed to conduct operations in Canada. International Utilities recently acquired a 51% interest in Standard Structural Steel Ltd., a Montreal-based fabricator and erector of structural steel. The price was not disclosed. Standard has enjoyed phenomenal earnings growth, with an average annual increase of 45% in per-share earnings over the past five years.

ANNUAL RESULTS: Net income, excluding gains on disposal of properties and investments, for the year ended December 31, 1966, amounted to \$13.7 million, 16% more than in 1965. Because of sharply higher preferred dividends, \$2 million in 1966 vs. \$178,000 a year earlier, earnings available for the common were \$1.71 vs. \$1.72 a share in 1965. Preferred dividends were higher in 1966 because a full year's payment was made on preferred stock issued late in 1965. The gain on the disposal of properties and investments in 1966 amounted to an additional 30¢ a share vs. 19¢ the year before, resulting in total net income of \$2.01 a share vs. \$1.91.

Revenues from natural-gas operations rose 4.9% to \$50.3 million in 1966. The subsidiaries sold 146.2-billion cubic feet of natural gas, for a gain of 6.1% over sales in 1965. Electricity revenues increased 7.8% to \$15 million, on sales of 562-million kwh, which were 13.5% higher than in 1965. Because of increases in costs, particularly a 15% rise in the cost of natural-gas purchases, net income from utility operations declined to \$7.6 million vs. \$7.9 million a year earlier.

Non-utility operations registered excellent over-all growth in 1966. Revenues rose 80% to \$123.2 million, while net income increased by 55% to \$6.2 million. Earnings of the transportation subsidiaries were adversely affected by substantial internal reorganizations, but their relatively poor results were more than offset by strong gains in other fields. The shipping division reported a particularly good earnings gain of 74% over 1965 earnings.

OUTLOOK: Although profits rose by 16% in 1966, earnings available for the common were held at their 1965 level by dividends on the new preferred-stock issue. Management estimates that 1967 earnings will show an impressive gain to about \$2.15 a share vs. \$1.71 a share for 1966. For the years after 1967, the outlook remains extremely promising, in our opinion. The substantial investment portfolio should continue to supply a regular source of interest and dividend income. Meanwhile, successful diversification into non-utility operations is continuing. The dividend rate on the common stock has been increased each year since 1944, and in the past five years payments have averaged 62% of earnings from operations available for the common. We believe that a continuation of increasing dividends as earnings grow is a reasonable expectation.

CONSOLIDATED CAPITALIZATION -- DECEMBER 31, 1966*

Long-Term Debt	\$152,370,797
Minority Interest	32,823,146
\$1.32 (U. S.) Convertible Preferred Stock (No Par)	1,425,950 Shares \neq
Common Stock (\$2.50 Par)	6,823,177 Shares \neq

* - In Canadian funds. \neq - Convertible into common on a share-for-share basis through December 1, 1969; fewer shares thereafter. Callable after November 30, 1970 at any time at \$33 (U. S.) per share. \neq - Outstanding as of June 30, 1967.

SELECTED CONSOLIDATED INCOME ACCOUNT DATA

Years Ended Dec. 31	Total Income* (000)	Deprec. & Amort.* (000)	Net Income* (000)	-----Per Common Share#-----		-----Price Range-----			
				Earnings* /	Dividends*	Toronto S. E. High	Low	-N. Y. S. E. High	Low
1967a	N. A.	N. A.	\$ 8,775	\$1.24	\$0.60	37 $\frac{1}{4}$ b	23b	39 $\frac{7}{8}$ b	25b
1966a	N. A.	N. A.	7,876	1.15	0.50	-	-	-	-
1966	\$189,550	\$16,323	13,742	1.71	1.10	33 $\frac{1}{8}$	23	30 $\frac{5}{8}$	21 $\frac{1}{2}$
1965	131,507	11,686	11,851	1.72	1.00	35	28 $\frac{1}{4}$	32 $\frac{1}{4}$	26 $\frac{3}{8}$
1964	84,779	7,764	10,670	1.58	0.90	30 $\frac{1}{8}$	22 $\frac{5}{8}$	28	20 $\frac{7}{8}$
1963	54,906	4,738	7,802	1.23	0.80	28	21 $\frac{3}{4}$	25 $\frac{3}{4}$	20 $\frac{3}{8}$
1962	51,387	4,375	7,033	1.15	0.77 $\frac{1}{2}$	23 $\frac{3}{4}$	17	22 $\frac{1}{2}$	15 $\frac{1}{2}$

* - In Canadian funds; dividends are subject to applicable Canadian tax. / - Excludes extraordinary earnings of \$0.30 a share in 1966, \$0.19 in 1965, \$0.13 in 1964, \$0.21 in 1963, \$0.25 in 1962; \$0.11 in 1967 interim and \$0.15 in 1966 interim. # - 1962-63 includes net earnings of U. S. industrial subsidiaries and Gotaas-Larsen Companies. # - Adjusted for 2-for-1 split in 1963. Earnings and dividends adjusted for preferred stock conversion in June 1965. Earnings based on average shares outstanding. a - Six months ended June 30. b - 1967 price range through September 5.
N. A. - Not available.

SELECTED CONSOLIDATED BALANCE SHEET DATA*

As of Dec. 31	Cash Items	-----Current-----		----Property----		Long- Term Debt/	Pfd. Stock	Common Stock & Surplus
		Assets	Liabs.	Gross	Net			
-----Thousands-----								
1966	\$62,550	\$ 96,037	\$48,756	\$390,422	\$287,601	\$185,194	\$51,203	\$114,065
1965	73,891	102,376	39,199	341,292	241,984	157,914	53,226	107,393
1964	34,008	53,528	32,939	253,901	185,470	106,928	545	101,757
1963	8,867	21,014	19,351	199,551	151,754	96,732	14,537	82,250
1962	6,915	19,744	21,194	186,067	142,751	86,772	14,573	64,950

* - In Canadian funds. / - Includes minority interest.

NOTE: At the time this report was prepared Merrill Lynch, Pierce, Fenner & Smith Incorporated for its own account and/or its officers or voting stockholders had no direct and/or indirect beneficial interest in the common stock.



MERRILL LYNCH, PIERCE, FENNER & SMITH INC

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Hollywood 90028 6353 Hollywood Blvd. 213 461-9811
La Jolla 92037 7722 Girard Ave. 714 454-7183
Long Beach 90802 210 E. First St. 213 435-3771
Los Angeles 90014 523 W. Sixth St. 213 MA 6-2611
Los Angeles 90005 3600 Wilshire Blvd. 213 DU 2-5454
Los Angeles 90024 1013 Broxton Ave. 213 GR 8-0211
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Palo Alto 94301 578 University Ave. 415 DA 1-7100
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Sacramento 95814 711 "J" St. 916 444-3232
San Diego 92101 301 "A" St. 714 234-2792
San Francisco 94104 300 California St. 415 433-2111
San Francisco 94108 445 Sutter St. 415 EX 2-1633
San Jose 95112 701 N. First St. 408 286-2121
Santa Ana 92702 1001 N. Broadway 714 KI 7-7272

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Fort Lauderdale 33306 2601 E. Oakland Pk. Beach Blvd. 305 563-1215
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Miami 33131 169 E. Flagler St. 305 FR 7-1451
Miami 33131 320 S.E. First St. 305 377-9261
Miami Beach 33139 407 Lincoln Road 305 532-8311
Orlando 32801 135 E. Colonial Dr. 305 241-2481
Palm Beach 33480 County Road and Royal Palm Way 305 TE 3-2501
Pensacola 32501 117 W. Garden St. 305 HE 8-7571
St. Petersburg 33701 23 Fourth St. S. 813 898-4181
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Augusta 30903 716 Broad St. 404 724-7761
Columbus 31901 101 Twelfth St. 404 FA 2-6661
Macon 31202 Dempsey Hotel Bldg. 912 743-4411
Savannah 31401 7 Drayton St. at Bay 233-1134

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Chicago 60601 350 N. Michigan Ave. 312 FI 6-3700
Chicago 60603 10 S. LaSalle St. 312 AN 3-3655

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Des Moines 50309 800 W. Locust St. 515 282-8151

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Louisville 40202 425 S. Fifth St. 502 589-9211

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New Orleans 70112 915 Common St. 504 529-5933
Shreveport 71102 404 Travis St. 318 425-3221

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Detroit 48202 208 Fisher Bldg. 313 874-3700
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Lansing 48903 115 W. Michigan Ave. 517 484-2581
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Jackson 39201 First National Bank Bldg. 601 FL 4-5261

MISSOURI

Kansas City 64199 Commerce Tower 816 HA 1-5700
St. Louis 63101 515 Olive St. 314 MA 1-6330

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Paramus 07652 East 328 State Highway No. 4 201 DI 3-5747
Trenton 08618 329 W. State St. 609 EX 6-4051

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Brooklyn 11201 200 Montague St. 212 UL 8-6400
Buffalo 14203 One M&T Plaza 716 853-2030
Forest Hills 11375 70-49 Austin St. 212 BO 1-4800
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New York 10022 320 Park Ave. 212 752-7200
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Dallas 75221 1407 Main St. 214 RI 1-5361
Dallas 75201 Republic National Bank Bldg. 214 RI 2-4181
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